

Message Text

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ACTION IO-13

INFO OCT-01 NEA-10 ISO-00 AF-08 ARA-06 EA-07 EUR-12 EB-07
AID-05 COME-00 L-03 SIL-01 TRSE-00 STR-04 OES-06
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FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 9714
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E.O. 11652: NA
TAGS: EIND, EG
SUBJ: US STEEL MAY WITHDRAW FROM UNIDO CONTRACT TO ASSIST
EGYPTIAN IRON AND STEEL COMPANY

1. AS ADDRESSEES MAY KNOW, US STEEL HAS HAD CONTRACT
WITH UNIDO TO DEVELOP COMPUTERIZED MAINTENANCE SYSTEM
FOR GOVERNMENT-OWNED EGYPTIAN IRON AND STEEL COMPANY
(EISC). US STEEL PROJECT MANAGER HAS BEEN DAVID KERR.
EMBASSY HAS BEEN INFORMED THAT PROBLEMS HAVE DEVELOPED
OVER THIS CONTRACT, AND IT IS DIFFICULT TO DETERMINE
WHERE BLAME FOR DIFFICULTIES MAY LIE. FACTS, AS WE
HAVE BEEN ABLE TO DEVELOP THEM, ARE AS FOLLOWS:

2. KERR INFORMED EMBASSY ON NOVEMBER 29 THAT HE
WAS RETURNING TO US ABOUT DECEMBER 10 AND PLANNED
RECOMMEND TO US STEEL THAT IT WITHDRAW FROM CONTRACT.
ACCORDING TO KERR, HE AND 2-MAN TEAM, RECENTLY
AUGMENTED BY ANOTHER ENGINEER FROM US STEEL REGIONAL
OFFICE, HAVE ENCOUNTERED CONTINUAL DELAYS AND ROAD-
BLOCKS IN ATTEMPTING GET MAINTENANCE SYSTEM IN
OPERATION. PRINCIPAL OBSTACLE HAS BEEN UNCOOPERATIVE
ATTITUDE OF EISC VICE-CHAIRMAN T.A. EL-MAGHRABY,
KERR'S MAIN CONTACT AT PLANT. KERR SAYS THAT DESPITE
OPPOSITION, HE HAS MANAGED TO INSTALL MUCH OF
COMPUTER EQUIPMENT NEEDED FOR SYSTEM, BUT
MAGHRABY AND OTHER OFFICIALS REFUSE TO "FEED" IT WITH
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INFORMATION REQUIRED FOR PROPER FUNCTIONING. IN

KERR'S VIEW, MAGHRABY AND OTHERS FEAR DISRUPTION OF THEIR TRADITIONAL, COMFORTABLE WAY OF OPERATING, EVEN THOUGH THIS RESULTS IN ONLY A FRACTION OF PLANT'S OUTPUT BEING OF ACCEPTABLE QUALITY. KERR ALSO INDICATES THAT MAGHRABY AND OTHERS HAVE HINTED AT PAY-OFFS (WHICH US STEEL REFUSED CONSIDER) IN RETURN FOR LETTING SYSTEM GO INTO OPERATION.

3. KERR'S DISILLUSIONMENT WITH PROJECT INCREASED EARLIER THIS MONTH WHEN, ACCORDING KERR, UNDP, WHICH IS LOCAL UN CONTACT ON PROJECT, APPEARED CONCUR WITH EISC DEMAND THAT US STEEL FURNISH, AS PART OF CONTRACT, COMPLETE MICROFILM RECORDS SYSTEM WITH PLANS OF ALL PLANT EQUIPMENT AND INSTANT RETRIEVAL CAPABILITY. KERR HAD INSISTED THIS WAS NOT PART OF ORIGINAL AGREEMENT FOR MAINTENANCE MANAGEMENT SYSTEM. AFTER APPARENTLY ACRIMONIOUS MEETING, UNDP REPS INDICATED THEY PLANNING ASK THAT KERR BE REPLACED BY ANOTHER MANAGER. KERR SUFFICIENTLY DISILLUSIONED TO INTEND RECOMMEND TO US STEEL THAT IT WITHDRAW FROM CONTRACT.

4. UNDP CAIRO REP STURE LINNER HAS, AS MIGHT BE EXPECTED, A DIFFERENT VERSION OF THE PROBLEM. IN BRIEF CONVERSATION AT SOCIAL FUNCTION, LINNER TOLD AMBASSADOR THAT HIS ORGANIZATION'S OBJECTION WAS TO KERR INDIVIDUALLY, RATHER THAN TO US STEEL AS A COMPANY. LINNER ARGUED BASIC PROBLEM WAS KERR'S ALLEGED INABILITY WORK WITH EGYPTIANS. US STEEL, ACCORDING TO LINNER, RECOGNIZES THIS AND HAS AGREED REPLACE KERR WITH SOMEONE ELSE. IN LATER DISCUSSION WITH COMMERCIAL ATTACHE, LINNER EXPRESSED WILLINGNESS TO GO INTO INTO DETAILS OF DISPUTE, BUT ONLY IF ALL PARTIES-EGYPTIAN OFFICIALS, UN REPS., AND US STEEL PERSONNEL WERE PRESENT AT DISCUSSION. LINNER ASSERTED THAT KERR SEEMED UNABLE TO WORK EFFECTIVELY EITHER WITH UNDP OR WITH EISC AND ASCRIBED DIFFICULTIES TO PERSONALITY PROBLEMS.

5. KERR CONTINUES INSIST THAT BASIC PROBLEM IS LIMITED OFFICIAL USE

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EGYPTIAN ATTITUDE TOWARD IMPLEMENTATION OF PROGRAM AND EXTRA-CONTRACTUAL DEMANDS THEY HAVE MADE. HE IS ANXIOUS TO BE RELIEVED OF RESPONSIBILITY FOR PROJECT BUT DOES NOT BELIEVE CHANGE OF US PERSONNEL WILL HAVE ANY NOTICEABLE EFFECT. HE SAYS DOCUMENTS HE HAS SEEN INDICATE SOVIETS ALSO HAVING GREAT DIFFICULTY WORKING WITH EGYPTIANS.

6. COMMENT: EMBASSY IS UNABLE TO MAKE A FIRM JUDGMENT ON THE ISSUE AND THERE IS DOUBTLESS SUBSTANCE IN BOTH VERSIONS. WE HAVE HAD GOOD WORKING RELATIONS WITH LINNER, WHO HAS HAD CONSIDERABLE EXPERIENCE WITH EGYPTIANS AND VAGARIES OF ITS BUREAUCRACY.

7. FROM STANDPOINT OF US INTERESTS, AMERICAN PRIVATE SECTOR ASSISTANCE TO THE IMPORTANT EGYPTIAN IRON AND STEEL INDUSTRY COULD HAVE BENEFICIAL RESULTS FOR US/EGYPTIAN RELATIONS. THE HELWAN COMPLEX WAS CONSTRUCTED WITH HEAVY SOVIET INPUT, AND WE KNOW THAT EGYPTIANS ARE DISSATISFIED WITH SOVIET EQUIPMENT AND MANAGERIAL ADVISE; THUS THERE IS A CLEAR OPPORTUNITY FOR AN EFFECTIVE US ROLE.

8. ACTION REQUESTED. EMBASSY SUGGESTS THAT DEPARTMENT DISCUSS THIS PROBLEM INFORMALLY WITH US STEEL WITH A VIEW TO ASCERTAINING COMPANY'S PLANS TO REPLACE KERR. SHOULD IT SEEM DESIRABLE, DEPARTMENT MIGHT WISH TO SUGGEST US STEEL SEND ONE OF ITS OFFICERS TO DISCUSS SITUATION WITH EISC AND UNDP TO ASSESS SITUATION. WE SHOULD TRY TO AVOID A SITUATION WHICH WOULD LEAVE BAD TASTE IN MOUTHS OF BOTH EISC AND US STEEL OVER DIFFICULTIES WHICH MAY BE RELATIVELY EASY TO RESOLVE. PLEASE ADVISE.
EILTS

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